The Fiscal Monitor

A Publication of the Department of Finance

Highlights

July 2006: budgetary surplus of $0.8 billion

There was a budgetary surplus of $0.8 billion in July 2006, down $0.9 billion from the surplus in July 2005. Revenues increased by $0.7 billion, reflecting solid growth in personal income tax revenues, combined with low growth in goods and services tax (GST) revenues and declines in employment insurance (EI) premium and corporate income tax revenues. Program expenses increased by $1.5 billion, reflecting increases in transfers to persons, which now include payments under the new Universal Child Care Benefit (UCCB) program, and increases in transfers to other levels of government. Public debt charges were up $0.1 billion.

April to July 2006: budgetary surplus of $6.3 billion

For the first four months of the 2006–07 fiscal year, the budgetary surplus is estimated at $6.3 billion, up $1.2 billion from the $5.1-billion surplus posted in the same period of 2005–06. Revenues were up $4.2 billion, or 5.8 per cent, driven by strong growth in income tax revenues, slightly offset by declines in EI premium revenues, sales and excise taxes and GST revenues. Program expenses were up $2.8 billion, or 5.1 per cent, due to both higher transfers and other program expenses. Public debt charges were up $0.1 billion.

The results to date do not include a significant portion of the $14.3 billion in tax reductions and expenditure increases for 2006–07 announced in the May 2006 budget. July represents only the first month of benefit payments under the new UCCB program ($181 million in July), which is expected to cost $1.6 billion over the full fiscal year, and the first month of the 1-percentage-point reduction in the GST rate, expected to cost $3.5 billion over the fiscal year. In addition, other spending measures have yet to come on stream.

July 2006

There was a budgetary surplus of $0.8 billion in July 2006, down $0.9 billion from July 2005.

Budgetary revenues increased by $0.7 billion, or 4.0 per cent, to $19.2 billion.

- Personal income tax revenues were up $0.7 billion, or 7.8 per cent, down from an average growth rate of over 13 per cent through the first three months of the fiscal year.
- Corporate income tax revenues were virtually unchanged from July 2005, with a small decrease of 0.4 per cent.
- Other income tax revenues—withholdings from non-residents—were also virtually unchanged, up only 0.5 per cent.

- Excise taxes and duties were up $0.1 billion, or 2.2 per cent. GST revenues were relatively flat, rising only $46 million, or 1.7 per cent, reflecting strong growth in retail sales, offset by the impact of the GST rate reduction effective July 1, 2006.
- EI premium revenues declined by 6.6 per cent, reflecting both the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues, revenues of certain foundations and miscellaneous revenues, were up $0.1 billion. This component of revenues is volatile.

Program expenses in July 2006 were $15.4 billion, up $1.5 billion, or 11.0 per cent, from July 2005, reflecting increases in transfer payments, notably transfers to persons and transfers to other levels of government.

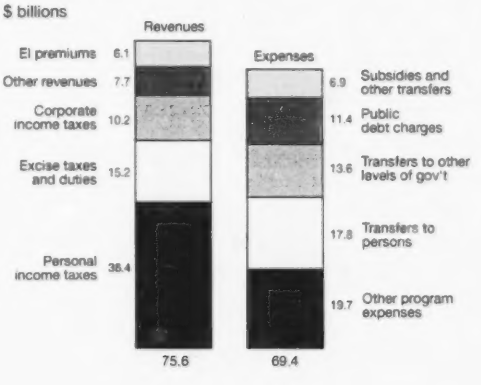
Transfer payments were up $1.5 billion, or 17.1 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were up $313 million, or 7.3 per cent. Elderly benefits increased by 5.1 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 1.9 per cent, reflecting declines in regular and maternity benefits. Children's benefits consist of the Canada Child Tax Benefit and the new UCCB, which began on July 1, 2006. Children's benefits were up $212 million, largely reflecting $181 million in transfers under the UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up $1.1 billion, or 37.8 per cent. This increase is mainly attributable to an increase in fiscal transfers and a one-time $650-million transfer to provinces and territories under the Early Learning and Child Care Agreements.
- Subsidies and other transfers, including transfers made by certain foundations, increased by $56 million, or 4.1 per cent, largely reflecting increased assistance to the farming sector.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence. They also reflect the ongoing assessment of the Government's liabilities. These expenses increased by $69 million, or 1.3 per cent.

Public debt charges increased by $136 million.

Revenues and expenses
(April to July 2006)



April to July 2006

In the first four months of the 2006–07 fiscal year, there was a budgetary surplus of $6.3 billion, up $1.2 billion from the $5.1-billion surplus reported for the same period of 2005–06.

Budgetary revenues were up $4.2 billion, or 5.8 per cent, to $75.6 billion.

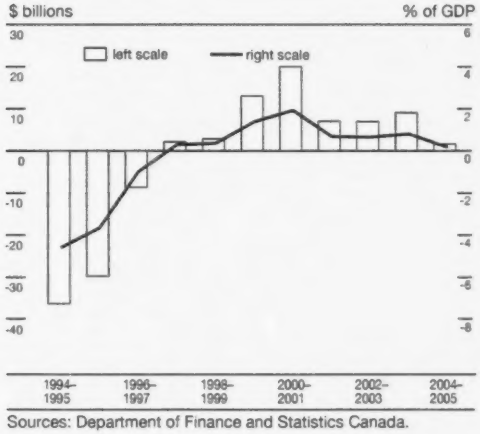
- Personal income tax revenues rose $3.8 billion, or 11.8 per cent, reflecting ongoing growth in employment and wages and salaries combined with the progressivity of the personal income tax system.
- Corporate income tax revenues were up $0.6 billion, or 5.8 per cent, reflecting a higher corporate installment payment base, which in turn reflects profit growth in 2005.
- Other income tax revenues increased by $0.1 billion, or 9.2 per cent.
- Excise taxes and duties were down $0.1 billion, or 0.5 per cent, due to a $0.1-billion decline in sales and excise taxes and a $49-million, or 0.4-per-cent, decline in GST revenues, reflecting low growth in imports subject to GST and the impact of the GST rate reduction on July 1, 2006. Customs import duties were up $76 million and revenues from the Air Travellers Security Charge increased by $7 million.
- EI premium revenues declined by 7.1 per cent, reflecting the reduction in the premium rate on January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues rose $0.2 billion, or 3.1 per cent.

Program expenses in the April to July 2006 period were $57.9 billion, up $2.8 billion, or 5.1 per cent, over the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by $0.1 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by $2.1 billion, or 5.7 per cent.

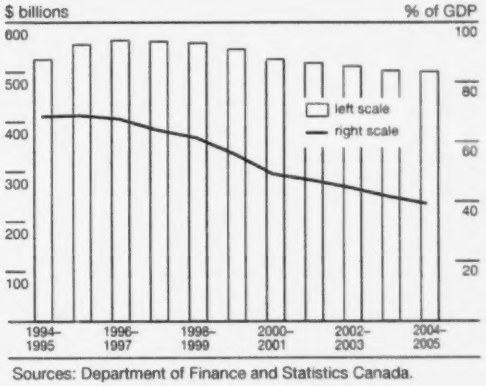
- Transfers to persons advanced by 2.6 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 6.5 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06. Maternity benefits are also down year-to-date, reflecting the transfer to the province of Quebec of the responsibility for delivering maternity and

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

parental benefits in that province. Children's benefits increased by 9.7 per cent, largely reflecting transfers under the new UCCB, which began on July 1, 2006.

- Transfers to other levels of government were up $1.2 billion, or 9.6 per cent, largely due to the impact of the 2004 agreement on health care, as well as a $650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by $0.4 billion, or 6.5 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by $0.8 billion, 4.1 per cent, reflecting an increase in the operating costs of departments and agencies, including National Defence. Crown corporation expenses declined by $0.1 billion, or 2.4 per cent.

Public debt charges were up 0.9 per cent due to an increase in the average effective interest rate on the stock of interest-bearing debt.

Financial source of $2.9 billion for April to July 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $3.4 billion in the April to July period, down from a $10.5-billion requirement in the same period of 2005–06. The decrease in the net requirement largely reflects a number of one-time payments made in 2005–06, such as a $2.8-billion transfer under the Offshore Revenues Accords made in June 2005 upon passage of the Budget Implementation Act, 2005.

With a budgetary surplus of $6.3 billion and a net requirement of $3.4 billion from non-budgetary transactions, there was a financial source of $2.9 billion in the first four months of 2006–07 compared to a financial requirement of $5.4 billion in the same period of 2005–06.

Net financing activities down $16.8 billion

The Government used this financial source of $2.9 billion and a reduction in its cash balances of $13.9 billion to reduce its market debt by $16.8 billion by the end of July 2006, largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at $4.0 billion.

Table 1
Summary statement of transactions

	July		April to July	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	18,416	19,151	71,475	75,630
Expenses				
Program expenses	-13,853	-15,373	-55,101	-57,927
Public debt charges	-2,802	-2,938	-11,319	-11,425
Budgetary balance (deficit/surplus)	1,761	840	5,055	6,278
Non-budgetary transactions	-1,819	1,771	-10,480	-3,359
Financial source/requirement	-58	2,611	-5,425	2,919
Net change in financing activities	-22	-1,323	-8,339	-16,813
Net change in cash balances	-80	1,288	-13,764	-13,894
Cash balance at end of period			3,361	4,040

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	July			April to July		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,896	9,590	7.8	32,584	36,417	11.8
Corporate income tax	1,997	1,990	-0.4	9,677	10,239	5.8
Other income tax	428	430	0.5	1,315	1,436	9.2
Total income tax	11,321	12,010	6.1	43,576	48,092	10.4
Excise taxes and duties						
Goods and services tax	2,719	2,765	1.7	10,914	10,865	-0.4
Customs import duties	249	315	26.5	1,046	1,122	7.3
Sales and excise taxes	817	787	-3.7	3,221	3,106	-3.6
Air Travellers Security Charge	30	31	3.3	120	127	5.8
Total excise taxes and duties	3,815	3,898	2.2	15,301	15,220	-0.5
Total tax revenues	15,136	15,908	5.1	58,877	63,312	7.5
Employment insurance premiums	1,461	1,365	-6.6	6,566	6,102	-7.1
Other revenues	1,819	1,878	3.2	6,032	6,216	3.1
Total budgetary revenues	18,416	19,151	4.0	71,475	75,630	5.8

Note: Totals may not add due to rounding.

Table 3
Budgetary expenses

	July			April to July		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,371	2,493	5.1	9,574	10,023	4.7
Employment insurance benefits	1,108	1,087	-1.9	4,628	4,325	-6.5
Children's benefits	803	1,015	26.4	3,107	3,407	9.7
Total	4,282	4,595	7.3	17,309	17,755	2.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	6,333	6,713	6.0
Canada Social Transfer	686	708	3.2	2,742	2,833	3.3
Total	2,269	2,386	5.2	9,075	9,546	5.2
Fiscal transfers	832	1,146	37.7	4,330	4,442	2.6
Canada's cities and communitites	0	0	n/a	0	0	n/a
Early learning and child care	0	650	n/a	0	650	n/a
Alternative Payments for Standing Programs	-240	-239	-0.4	-1,001	-1,044	4.3
Total	2,861	3,943	37.8	12,404	13,594	9.6
Subsidies and other transfers						
Agriculture	10	81	710.0	654	750	14.7
Foreign Affairs and International Trade	173	178	2.9	680	707	4.0
Health	191	222	16.2	601	636	5.8
Human Resources Development	120	97	-19.2	577	596	3.3
Indian and Northern Development	316	356	12.7	1,646	1,648	0.1
Industry and Regional Development	147	172	17.0	575	523	-9.0
Other	401	308	-23.2	1,726	2,016	16.8
Total	1,358	1,414	4.1	6,459	6,876	6.5
Total transfer payments	8,501	9,952	17.1	36,172	38,225	5.7
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	100	62	-38.0	455	477	4.8
Canada Mortgage and Housing Corporation	186	172	-7.5	704	640	-9.1
Other	336	303	-9.8	1,233	1,218	-1.2
Total	622	537	-13.7	2,392	2,335	-2.4
Defence	1,571	1,354	-13.8	4,467	4,831	8.1
All other departments and agencies	3,159	3,530	11.7	12,070	12,536	3.9
Total other program expenses	5,352	5,421	1.3	18,929	19,702	4.1
Total program expenses	13,853	15,373	11.0	55,101	57,927	5.1
Public debt charges	2,802	2,938	4.9	11,319	11,425	0.9
Total budgetary expenses	16,655	18,311	9.9	66,420	69,352	4.4

Note: Totals may not add due to rounding.

Table 4
The budgetary balance and financial source/requirement

	July		April to July	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	1,761	840	5,055	6,278
Non-budgetary transactions				
Capital investing activities	178	-187	19	-299
Other investing activities	-541	11	-1,110	463
Pension and other accounts	-305	-846	-1,241	112
Other activities				
Accounts payable, receivables, accruals and allowances	-3,092	2,974	-11,409	-5,227
Foreign exchange activities	1,679	-431	2,268	647
Amortization of tangible capital assets	262	250	993	945
Total other activities	-1,151	2,793	-8,148	-3,635
Total non-budgetary transactions	-1,819	1,771	-10,480	-3,359
Net financial source/requirement	-58	2,611	-5,425	2,919

Notes: July 2005 results have been adjusted to reflect the reclassification of certain amounts from "Capital investing activities" to "Acccounts payable, receivables, accruals and allowances."
Totals may not add due to rounding.

Table 5
Financial source/requirement and net financing activities

	July		April to July	
	2005	2006	2005–06	2006–07
	($ millions)			
Net financial source/requirement	-58	2,611	-5,425	2,919
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	758	468	-878	-1,431
Treasury bills	1,300	-1,500	-3,600	-11,100
Canada Savings Bonds	-88	-84	-308	-302
Other	-2	-223	-141	-910
Total	1,968	-1,339	-4,927	-13,743
Foreign currency borrowings	-2,124	-86	-3,504	-2,909
Total	-156	-1,425	-8,431	-16,652
Cross-currency swap revaluation	-4	2	-5	0
Unamortized discounts on debt issues	66	106	27	-121
Obligations related to capital leases	72	-6	70	-40
Net change in financing activities	-22	-1,323	-8,339	-16,813
Change in cash balance	-80	1,288	-13,764	-13,894

Note: Totals may not add due to rounding.

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